

State of Utah

Comprehensive Annual Financial Report

2008



For the Fiscal Year Ended **June 30, 2008**

State Of Utah

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2008

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John M. Schaff, CIA Auditor General, Office of the Legislative Auditor General
Michael E. Christensen Director, Office of Legislative Research and General Counsel

ACKNOWLEDGMENTS

Report prepared by:

Marcie L. Handy, CPA
Eugene F. Baird
Lynn G. Bodrero, CPA
Julia D'Alesandro, CPA, CIA
Darin C. Janzen
Lynda B. McLane, CPA
Robert Melendez
Deborah S. Memmott
Robert D. Miles
G. Anthony Monsivais
Gary E. Morris, CPA
David H. Pierce, CPA
Cindy M. Robinson

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Department of Administrative Services: Division of Finance Accounting Standards and Financial Reporting Section

State of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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INTRODUCTION

The following is a discussion and analysis of the State of Utah's financial performance and position, providing an overview of the State's activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and with the State's financial statements that follow this section.

HIGHLIGHTS

Government-wide

- The State's total net assets increased \$729.8 million or 4.6 percent over the prior year. Net assets of governmental activities increased \$562.4 million or 4.1 percent due primarily to investments in capital assets made possible by resources carried forward from fiscal year 2007 and resources budgeted for projects in fiscal year 2008. Net assets of business-type activities also grew by \$167.4 million or 7.2 percent as a result of additional capital for loan programs provided from dedicated sales tax revenues, federal grants, and mineral lease revenues; and in part to revenues from employers' unemployment premiums exceeding benefit payments.

Fund Level

- Overall, sales tax revenues in the governmental funds declined by 3.7 percent. Combined tax revenues were 6.6 percent lower in the General Fund and 1 percent lower in the Education Fund than the prior year. Sales tax revenue in the General Fund declined by 8.1 percent due to a weakening economy, diversion of sales tax revenues by the Legislature to fund highway projects, and general sales tax reductions of 0.1 percent as well as 1 percent on unprepared food, effective January 1, 2008. In fiscal year 2007, and early in fiscal year 2008, Utah's economic expansion was above that of the national economy. During the later part of fiscal year 2008, the slowdown in the national economy began to impact Utah causing the local economy to weaken
- The General Fund, Education Fund, and Uniform School Fund ended the fiscal year with a zero dollar surplus by using \$28.8 million of General Fund and \$45.6 million of Education Fund and Uniform School Fund originally designated and budgeted to be used for fiscal year 2009, to cover revenue shortfalls that occurred in fiscal year 2008.
- Balances in the General Fund Budget Reserve Account ("Rainy Day Fund") and the Education Budget Reserve Account are at an all time high of \$194.3 million and \$234.7 million, respectively, as a result of appropriations to these funds authorized by the Legislature.

Long-term Debt

- The State's long-term bonded debt decreased a net \$157.7 million or 4.2 percent in part through the payment of principal balances on outstanding debt and also due to cash defeasances on several revenue bonds, despite the issuance of general obligation and revenue bonds during the fiscal year to fund capital facility, highway construction, and student loan programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes the State's Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements — Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities beginning on page 27 together comprise the *government-wide financial statements*. These statements provide a broad overview of the State's finances as a whole with a long-term focus and are prepared using the *full-accrual* basis of accounting, similar to private-sector companies. This means all revenues and expenses are recognized regardless of when cash is received or spent, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. Over time, increases and decreases in net assets measure whether the State's overall financial condition is getting better or worse. In evaluating the State's overall condition, however, additional non-financial factors should be considered such as the State's economic outlook, changes in its demographics, and the condition of its capital assets and infrastructure. The government-wide statements report three activities:

Governmental Activities – Most of the State's basic services fall under this activity including education, transportation, public safety, courts, corrections, health, and human services. Taxes and federal grants are the major funding sources for these programs.

Business-type Activities – The State operates certain activities much like private-sector companies by charging fees to customers to cover all or most of the costs of providing the goods and services. Student loans, unemployment compensation, water project loan programs, and liquor sales are examples of business-type activities.

Component Units – A number of entities are legally separate from the State, yet the State remains financially accountable for them. Colleges and Universities, Utah Housing Corporation, and Utah State Fair Corporation are examples of component units.

Fund Financial Statements — Reporting the State's Most Significant Funds

The fund financial statements beginning on page 31 provide detailed information about individual major funds, not the State as a whole. A fund is a group of related accounts that the State uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the State's funds are divided into three types, each of which uses a different accounting approach.

Governmental Funds – Most of the State's basic services are accounted for in governmental funds and are essentially the same functions reported as *governmental activities* in the government-wide statements. Governmental funds use the *modified accrual* basis of accounting, which measures the flow of current financial resources that can be converted to cash and the balances left at yearend that are available for future spending. This *short-term* view of the State's financial position helps determine whether the State has sufficient resources to cover expenditures for its basic services in the near future.

Proprietary Funds – Proprietary funds include enterprise funds and internal service funds and account for state activities that are operated much like private-sector companies. Like the government-wide statements, proprietary fund statements are presented using the *full-accrual* basis of accounting. Activities whose customers are mostly outside of state government (e.g., water project loans to local governments) are accounted for in *enterprise funds* and are the same functions reported as *business-type activities*. Thus, the *enterprise fund* financial statements reinforce the information reported for *business-type* activities in the government-wide statements, but provide more detail and additional information, such as cash flows. Activities whose customers are mostly other state agencies (e.g., motor pool) are accounted for in *internal service funds*. The internal service fund activities are consolidated with the governmental activities in the government-wide statements because those services predominantly benefit governmental rather than business-type activities.

Fiduciary Funds – Fiduciary funds account for assets that, because of trust relationships, can be used only for trust beneficiaries. The State is responsible for ensuring these assets are used for their intended purposes. Fiduciary funds use *full-accrual* accounting, but are *not* included in the government-wide statements because their assets are not available to finance the State's own programs.

Reconciliation between Government-wide and Fund Statements

The financial statements include schedules on pages 34 and 38 that reconcile and explain the differences between the amounts reported for *governmental activities* on the government-wide statements (full-accrual accounting, long-term focus) with amounts reported on the *governmental* fund statements (modified accrual accounting, short-term focus). The following are some of the major differences between the two statements:

- Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are expenditures on the governmental fund statements.
- Bond proceeds result in liabilities on the government-wide statements, but are other financing sources on the governmental fund statements.
- Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements, but are deferred revenue on the governmental fund statements.

Notes to the Financial Statements

The notes beginning on page 58 provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

Required Supplementary Information (RSI)

Following the Basic Financial Statements are budgetary comparison schedules for major funds with legally adopted budgets and condition assessment data related to infrastructure. In addition, the RSI includes schedules on the funded status and employer

contributions for the State's defined benefit Other Postemployment Benefit Plan. RSI further supports the information in the basic financial statements.

Supplementary Information

Supplementary Information includes combining statements for the State's nonmajor governmental, nonmajor proprietary and fiduciary funds and for nonmajor discretely presented component units. This section also includes schedules which compare budgeted expenditures to actual results at the legal level of control, which is generally the line item level of the *Appropriations Acts*.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's total net assets increased \$729.8 million or 4.6 percent in fiscal year 2008. In comparison, net assets in the prior year increased \$1.972 billion or 14.1 percent. This increase in total net assets resulted from the active management of state resources. The change in net assets is comprised of the following:

- *Invested in Capital Assets* – Total net capital assets increased \$982.5 million or 10.4 percent as the State's investment in highways and buildings exceeded depreciation and net additional debt used to finance projects.
- *Restricted Net Assets* – Total restricted net assets decreased \$325 million or 7.4 percent over the prior year. The \$425 million decrease in restricted net assets of governmental activities was caused by a \$556.3 million decrease in nonexpendable net assets for public education due to expenses and transfers out exceeding revenues and net assets budgeted and carried forward from the prior year and used to cover operating shortfalls. However, this decrease was partially offset by a \$99.9 million increase in transportation net assets due to net transfers (appropriations) for highway projects and an increase of \$30.6 million in nonexpendable net assets generated primarily from the sale of trust lands in the Permanent Trust Lands Fund. Restricted net assets in business-type activities increased \$100.1 million primarily due to unemployment compensation revenues exceeding related claims by \$50.7 million, and an increase of \$49.9 million in additional loan capital in various loan programs provided by investment income and federal grants.
- *Unrestricted Net Assets* – Total unrestricted net assets in governmental activities increased only slightly by \$5.8 million or 0.5 percent. The increase of \$66.5 million in unrestricted net assets in business-type activities is primarily due to the State providing additional capital to loan funds from mineral lease and dedicated sales tax revenues.

State of Utah
Net Assets as of June 30
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 5,092,823	\$ 5,450,206	\$ 4,770,529	\$ 4,564,541	\$ 9,863,352	\$ 10,014,747
Capital Assets	11,627,282	10,878,861	61,021	52,462	11,688,303	10,931,323
Total Assets	16,720,105	16,329,067	4,831,550	4,617,003	21,551,655	20,946,070
Current and Other Liabilities	869,300	841,033	57,036	45,937	926,336	886,970
Long-term Liabilities	1,615,550	1,815,220	2,287,956	2,251,886	3,903,506	4,067,106
Total Liabilities	2,484,850	2,656,253	2,344,992	2,297,823	4,829,842	4,954,076
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	10,447,357	9,465,667	13,837	13,008	10,461,194	9,478,675
Restricted	2,618,556	3,043,599	1,434,828	1,334,737	4,053,384	4,378,336
Unrestricted	1,169,342	1,163,548	1,037,893	971,435	2,207,235	2,134,983
Total Net Assets	\$ 14,235,255	\$ 13,672,814	\$ 2,486,558	\$ 2,319,180	\$ 16,721,813	\$ 15,991,994
Percent change in total net assets from prior year	4.1 %		7.2 %		4.6 %	

The largest component of the State's net assets, 62.6 percent, reflects investments in capital assets (e.g., land, buildings, equipment, roads, and other infrastructure) less the outstanding debt issued to finance those assets. As capital assets, these resources are not available for future spending, nor can they be readily liquidated to pay off their related liabilities. Resources needed to repay capital-related debt must be provided from other sources.

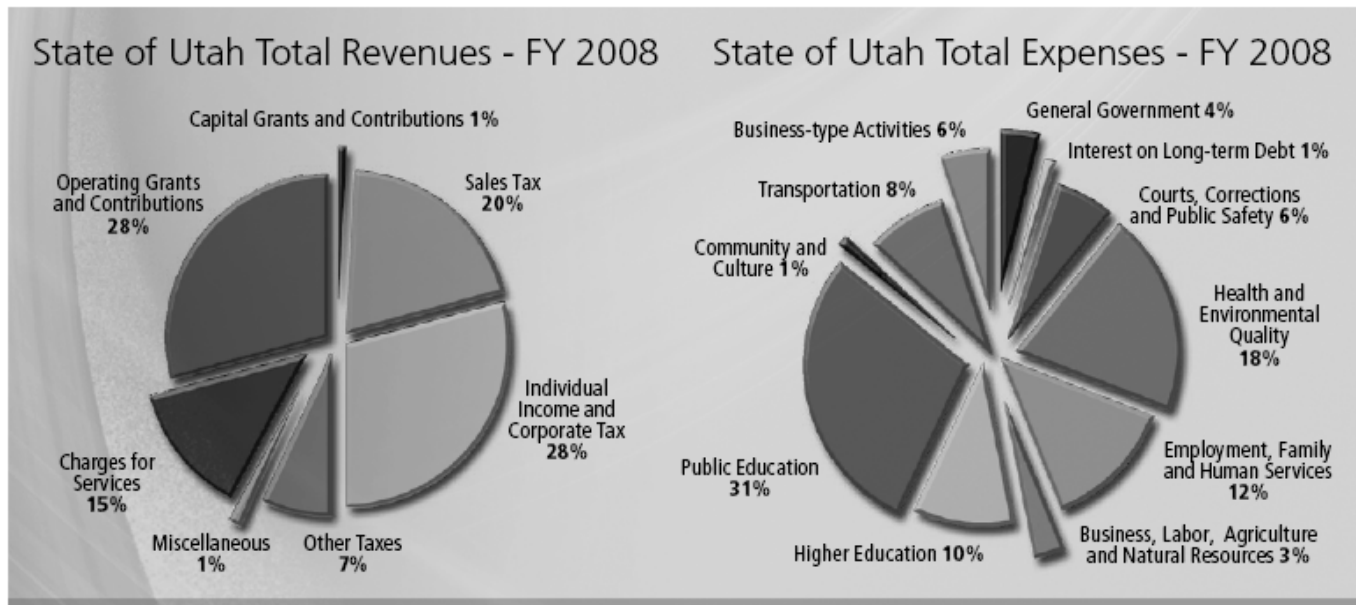
Restricted net assets comprise 24.2 percent of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted by the *Constitution of Utah* include income and corporate taxes that can be used only for public and higher education costs and motor fuel taxes that can be used only for transportation expenses.

The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations, though certain laws and internally imposed designations of resources further limit the purposes for which many of those net assets may be used.

The following schedule and charts summarize the State's total revenues, expenses, and changes in net assets for fiscal year 2008.

State of Utah Changes in Net Assets for the Fiscal Year Ended June 30 <i>(Expressed in Thousands)</i>							
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2008	2007	2008	2007	2008	2007	2007 to 2008
Revenues							
General Revenues:							
Taxes	\$ 5,535,750	\$ 5,885,196	\$ 23,462	\$ 25,440	\$ 5,559,212	\$ 5,910,636	(5.9)%
Other General Revenues	132,586	179,503	—	877	132,586	180,380	(26.5)%
Program Revenues:							
Charges for Services	933,371	732,481	557,470	597,727	1,490,841	1,330,208	12.1 %
Operating Grants and Contributions	2,658,284	2,769,644	143,853	138,252	2,802,137	2,907,896	(3.6)%
Capital Grants and Contributions	144,867	122,939	—	—	144,867	122,939	17.8 %
Total Revenues	9,404,858	9,689,763	724,785	762,296	10,129,643	10,452,059	(3.1)%
Expenses							
General Government	385,331	328,779	—	—	385,331	328,779	17.2 %
Human Services and Youth Corrections	679,920	634,265	—	—	679,920	634,265	7.2 %
Corrections, Adult	255,319	237,305	—	—	255,319	237,305	7.6 %
Public Safety	191,910	172,912	—	—	191,910	172,912	11.0 %
Courts	125,587	115,811	—	—	125,587	115,811	8.4 %
Health and Environmental Quality	1,649,209	1,620,936	—	—	1,649,209	1,620,936	1.7 %
Higher Education	912,998	824,503	—	—	912,998	824,503	10.7 %
Employment and Family Services	423,122	393,938	—	—	423,122	393,938	7.4 %
Natural Resources	159,955	174,711	—	—	159,955	174,711	(8.4)%
Community and Culture	132,687	108,110	—	—	132,687	108,110	22.7 %
Business, Labor, and Agriculture	95,563	92,441	—	—	95,563	92,441	3.4 %
Public Education	2,959,311	2,548,391	—	—	2,959,311	2,548,391	16.1 %
Transportation	850,387	702,833	—	—	850,387	702,833	21.0 %
Interest on Long-term Debt	58,851	64,019	—	—	58,851	64,019	(8.1)%
Student Assistance Programs	—	—	164,411	174,220	164,411	174,220	(5.6)%
Unemployment Compensation	—	—	148,424	97,692	148,424	97,692	51.9 %
Water Loan Programs	—	—	10,477	13,042	10,477	13,042	(19.7)%
Other Business-type Activities	—	—	196,362	176,261	196,362	176,261	11.4 %
Total Expenses	8,880,150	8,018,954	519,674	461,215	9,399,824	8,480,169	10.8 %
Excess Before Transfers	524,708	1,670,809	205,111	301,081	729,819	1,971,890	
Transfers	37,733	46,778	(37,733)	(46,778)	—	—	
Change in Net Assets	562,441	1,717,587	167,378	254,303	729,819	1,971,890	
Net Assets – Beginning	13,672,814	11,955,227	2,319,180	2,064,877	15,991,994	14,020,104	
Net Assets – Ending	\$ 14,235,255	\$ 13,672,814	\$ 2,486,558	\$ 2,319,180	\$ 16,721,813	\$ 15,991,994	4.6 %

(Charts on next page.)



Changes in Net Assets

This year the State received 54.9 percent of its revenues from state taxes and 29.1 percent of its revenues from grants and contributions, mostly from federal sources. In the prior year, state taxes accounted for 56.5 percent and grants and contributions were 29 percent of total revenues. Charges for goods and services such as licenses, permits, liquor sales, park fees, and court fees, combined with other miscellaneous collections, comprised 16 percent of total revenues in fiscal year 2008, compared to 14.5 percent in fiscal year 2007.

Governmental Activities

The State's total governmental revenues from all sources decreased \$284.9 million or 2.9 percent. Tax revenues decreased \$349.4 million or 5.9 percent. This decrease in taxes reflects weakening economic conditions and is similar to the decrease at the fund level. However, due to differences in measurement focus and timing of collections, the decrease at the government-wide level should not be used to predict future decreases at the fund statement or budget level. With the exception of natural resources, other significant changes in governmental activities' revenues and expenses mirror the changes in the General Fund. For further discussion of these changes, see the section entitled "General Fund" on page 20. For fiscal year 2008, natural resources expenses decreased \$14.8 million compared to the prior year due to an increase in capital outlay for new buildings and the purchase of land. This increase in capital outlay is reflected as capital assets on the government-wide statements, but shown as expenditures on the governmental fund statements.

The following table shows to what extent the State's governmental activities relied on taxes and other general revenues to cover all of their costs. For fiscal year 2008, state taxes and other general revenues covered 57.9 percent of expenses. The remaining \$3.736 billion or 42.1 percent of the total expenses were covered by charges for services and grants.

(Table on next page.)

State of Utah
Net Cost of Governmental Activities
for the Fiscal Year Ended June 30
(Expressed in Thousands)

	Program Expenses	Less Program Revenues	Net Program (Expenses) / Revenues		Program Revenues as a Percentage of Program Expenses	
	2008	2008	2008	2007	2008	2007
General Government	\$ 385,331	\$ 429,116	43,785	\$ 20,072	111.4 %	106.1 %
Human Services and Youth Corrections	679,920	305,524	(374,396)	(347,268)	44.9 %	45.2 %
Corrections, Adult	255,319	6,799	(248,520)	(232,671)	2.7 %	2.0 %
Public Safety	191,910	116,336	(75,574)	(71,792)	60.6 %	58.5 %
Courts	125,587	47,135	(78,452)	(68,996)	37.5 %	40.4 %
Health and Environmental Quality	1,649,209	1,256,246	(392,963)	(395,089)	76.2 %	75.6 %
Higher Education	912,998	1,353	(911,645)	(822,143)	0.1 %	0.3 %
Employment and Family Services	423,122	358,395	(64,727)	(63,523)	84.7 %	83.9 %
Natural Resources	159,955	105,305	(54,650)	(64,099)	65.8 %	63.3 %
Community and Culture	132,687	43,468	(89,219)	(64,015)	32.8 %	40.8 %
Business, Labor, and Agriculture	95,563	78,350	(17,213)	(17,919)	82.0 %	80.6 %
Public Education	2,959,311	420,618	(2,538,693)	(1,982,632)	14.2 %	22.2 %
Transportation	850,387	567,877	(282,510)	(219,796)	66.8 %	68.7 %
Interest and Charges on Long-term Debt	58,851	—	(58,851)	(64,019)		
Total Governmental Activities	\$ 8,880,150	\$ 3,736,522	\$ (5,143,628)	\$ (4,393,890)	42.1 %	45.2 %

Business-type Activities

Revenues from the State's business-type activities decreased \$37.5 million or 4.9 percent from the prior year. The decrease is primarily due to a \$62.1 million decrease in revenue from employer taxes in the unemployment compensation fund as lower claims in prior years resulted in lower employment taxes. This decrease was offset by a \$24.5 million increase in liquor sales, due to higher sales volume. Total expenses for the State's business-type activities increased \$58.5 million or 12.7 percent. The increase is largely due to a \$50.7 million increase in payments for unemployment benefits caused in large part by weakness in residential construction.

All of the State's business-type activities operate from program revenues, except for the Water Loan Programs and the Agriculture Loan Fund that by law receive dedicated sales tax revenues and the Community Impact Loan Fund that receives federal mineral lease revenues to provide additional capital for loans. Accounting standards require unemployment taxes that are collected from employers and deposited in the Unemployment Compensation Fund to be reported as charges for services rather than taxes. Therefore, taxes in the business-type activities are comprised entirely of sales taxes in the water and agriculture loan programs.

FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS

Fund Balances

At June 30, 2008, the State's governmental funds reported combined ending fund balances of \$3.785 billion. Of this amount, \$2.338 billion or 61.8 percent is reserved for specific programs by state law, external constraints, or contractual obligations. Unspent bond proceeds, balances of restricted accounts, and agencies' nonlapsing balances are included in reserved fund balance. An additional \$1.134 billion or 30 percent of total fund balances has been designated through internally imposed limitations on uses of certain funds. Note 11 on page 99 provides more details about reserved and designated fund balances at June 30, 2008. The remaining \$312.5 million or 8.3 percent of fund balance is available for appropriation for the general purposes of the funds.

(Table on next page.)

State of Utah
Governmental Fund Balances as of June 30, 2008
(Expressed in Thousands)

	General Fund	Education Fund	Uniform School Fund	Transportation Fund	Transportation Investment Fund	Trust Lands Fund	Nonmajor Funds	Total
Reserved	\$ 470,800	\$ —	\$ 189,578	\$ 216,369	\$ 182,856	\$ 1,014,449	\$ 264,217	\$ 2,338,269
Unreserved Designated	394,068	413,998	183,218	44,602	17,016	—	81,536	1,134,438
Unreserved Undesignated	—	—	—	249,655	—	—	62,838	312,493
Total	\$ 864,868	\$ 413,998	\$ 372,796	\$ 510,626	\$ 199,872	\$ 1,014,449	\$ 408,591	\$ 3,785,200
Percent change from prior year	(19.9)%	(26.9)%	(42.8)%	56.1 %	54.0 %	3.1 %	44.3 %	(5.9)%

General Fund

During fiscal year 2008, the General Fund's total fund balance decreased \$214.7 million or 19.9 percent. This decrease was due in large part to sales tax revenues coming in \$55.9 million less than budgeted and also because the amount of fund balance designated as carry over for the next year's appropriations was reduced as explained in the following paragraph.

The General Fund ended fiscal year 2008 with a zero dollar surplus, or unreserved undesignated fund balance, by using \$28.8 million of the \$48.8 million of General Fund budgeted revenues set aside for fiscal year 2009. This left \$20 million set aside in the budget and designated by the Legislature for fiscal year 2009 appropriations, compared to \$223.6 million set aside for the next year's appropriations as reported in the prior year. In the event of a surplus, State law requires 25 percent of any revenue surplus in the General Fund to be transferred to the General Fund Budget Reserve Account ("Rainy Day Fund"), an account within the General Fund. Although there was not a revenue surplus in the General Fund, the Legislature appropriated \$16.2 million to the General Fund Budget Reserve Account for fiscal year 2008. The balance in the General Fund Budget Reserve Account, reported as part of unreserved designated fund balance, ended fiscal year 2008 at an all-time high of \$194.3 million. Miscellaneous changes resulting from other designated and reserved sources account for the remaining change in fund balance.

Total General Fund revenues decreased \$72.8 million or 1.6 percent from the prior year. Total tax collections decreased \$140.9 million or 6.6 percent. The major decrease in tax revenues was sales tax, which decreased \$150.1 million or 8.1 percent, due in part to a weakening economy and to sales tax revenue that was diverted to fund transportation projects as discussed in the section entitled "Transportation Fund" on page 21. The Legislature also reduced the general state sales tax rate by 0.1 percent and reduced the tax on unprepared food by 1 percent, effective January 1, 2008. Federal contracts and grants increased by \$73.5 million or 4 percent and was the largest single factor in increasing non-tax revenues for the fiscal year. Charges for services increased \$32.3 million or 12.1 percent. Both increases were driven by demand for services. The increase in revenues was offset by a decrease in investment income of \$18.8 million or 19.9 percent due to lower interest rates and a decrease in miscellaneous and other revenues of \$7.6 million or 4.6 percent.

Total General Fund expenditures increased by \$329.6 million or 7.3 percent. The increase was due in part to a 3.5 percent cost-of-living adjustment (COLA) provided for state employees, an additional 1.5 percent for discretionary pay increases for employees, and a 9.8 percent increase in health benefit costs. Significant changes in expenditures also occurred in the following areas:

- *General Government* – Total expenditures in this category increased \$43.4 million. In addition to salary and benefit increases, additional funding was provided for the science and technology initiative (USTAR), various economic activities, and new criminal and juvenile justice programs.
- *Higher Education* – Total expenditures in this category were up \$95.5 million, primarily due to additional appropriations for increases in employee salary and health benefits, student financial aid, and fuel and power costs. Additional funding was also provided for the operation and maintenance of new facilities.
- *Human Services and Youth Corrections* – Total expenditures in this category increased \$50.7 million due to increased funding and demand for child and family services, people with disabilities, and substance abuse and mental health services.
- *Health and Environmental Quality* – Total expenditures in this category were up \$27.6 million, primarily due to increased Medicaid program costs resulting from caseload growth and inflationary increases for Medicaid provider rates. Higher expenditures in community and family health services also contributed to the increase.
- *Employment and Family Services* – Total expenditures in this category increased \$26.1 million primarily due to the transfer of \$14.8 million from the Department of Health to the Department of Workforce Services to consolidate Medicaid eligibility services. Higher expenditures in general assistance and child care also contributed to the increase.
- *Community and Culture* – Total expenditures in this category were up \$22.2 million due to increases for housing and

community development and new funding for arts and museums. In addition, the Pete Suzao Utah Athletic Commission was moved from the Department of Commerce to the newly created Utah Sports Authority. This change resulted in a shift of expenditures to the Community and Culture function.

Budgetary Highlights — General Fund

The Legislature adopted the initial fiscal year 2008 budget during the 2007 General Session. The original revenue estimates in the General Fund budget at the start of fiscal year 2008, excluding department-specific revenue sources such as federal grants and departmental collections, and including miscellaneous transfers, were 3.1 percent higher than the final fiscal year 2007 budget. Budgeted expenditures were 15.2 percent higher than the final fiscal year 2007 budget. The expected revenue increase along with funds designated and set aside from fiscal year 2007 were used to fund this increase. The Legislature increased funding for employee salaries and benefits and addressed other program needs, particularly in higher education and health and human services. They also avoided additional general obligation debt by transferring general fund monies to other funds for roads, bridges, and buildings.

The budget was again addressed during the 2008 General Session of the Legislature (January to March 2008). General revenue estimates, primarily sales and use tax, increased \$47.8 million over the original adopted in the 2007 General Session, allowing the Legislature to designate \$48.8 million of expected excess revenue for fiscal year 2009 appropriations. However, as a result of actual revenue shortfalls identified late in fiscal 2008, the set-aside funds for fiscal year 2009 were reduced to \$20 million.

Final budgets of department-specific revenue sources increased over original budgets; and actual department-specific revenues increased over final budgets mostly due to an increase in departmental collections. Final budgets for many of the departmental-specific revenue sources and related expenditures such as federal grants, departmental collections, and miscellaneous revenues, are generally revised based on actual collections. The difference between final budgeted expenditures and actual expenditures is primarily due to nonlapsing and unspent restricted funds that will be carried forward to the next year. However, \$2.1 million of unspent budgeted dollars were lapsed back to the General Fund by agencies.

Education Fund

Fund balance in the Education School Fund decreased \$152.7 million or 26.9 percent from the prior year because transfers out exceeded revenues, which reduced the beginning fund balance. Corporate taxes decreased slightly by \$1.3 million or 0.3 percent and individual income taxes decreased \$28.9 million or 1.1 percent. There are no expenditures reported in the Education Fund. However, \$3.176 billion was transferred out to fund public and higher education. Of this amount, the Uniform School Fund received \$2.319 billion, the General Fund received \$728.1 million for public and higher education, and the Nonmajor Governmental Funds received \$128.1 million for debt service and capital projects.

The Education Fund ended fiscal year 2008 with a zero dollar surplus, or unreserved undesignated fund balance, by using \$45.6 million of combined Education and Uniform School Fund budgeted revenues designated and set aside for fiscal year 2009 to cover revenue shortfalls from fiscal year 2008. In the event of a surplus, State law requires 25 percent of any revenue surplus in the Education Fund to be transferred to the Education Budget Reserve Account, an account within the Education Fund. Although there was not a revenue surplus in the Education Fund, the Legislature appropriated \$84.2 million to the fund for fiscal year 2008 to be used for any future budget shortfalls in education. The Education Budget Reserve Account ended the fiscal year with a balance of \$234.7 million.

Uniform School Fund

Fund balance in the Uniform School Fund decreased \$278.9 million or 42.8 percent from the prior year because expenditures exceeded revenues and transfers in, which reduced the beginning fund balance. Revenues increased by \$14.7 million or 3.3 percent, primarily due to an increase in federal contracts and grants. Public education expenditures increased \$413.4 million or 16.2 percent as the Legislature increased funding for educator salaries and benefits, enrollment growth, and increased operating costs. The Uniform School Fund ended the year with a zero dollar surplus, or unreserved undesignated fund balance, by using budgeted revenues designated and set aside for fiscal year 2009, as noted in the preceding paragraph.

Transportation Fund

Fund balance in the Transportation Fund increased \$183.6 million or 56.1 percent from the prior year. The increase was due in part to an increase in sales and use tax as a result of House Bill 314, *Transportation Fund Revisions*. The bill directed \$90 million of ongoing sales and use tax revenue into the fund for highway projects. In addition, fund balance was increased by net transfers (appropriations) into the fund for highway projects and general obligation bond proceeds, most of which were unspent at June 30, 2008. Revenues increased by \$196.3 million due in part to the additional sales tax diverted to the fund, as explained above. Other restricted sales tax revenue increased \$26.4 million or 91.3 percent due in large part to the reallocation and removal of the cap on certain sales and use tax revenue deposited in the fund. In addition, federal contracts and grants increased by \$28.7 million or 11.3

percent and aeronautics revenue increased \$24.1 million or 54.7 percent due to an increase in federal funding for airport construction. Expenditures increased by \$241.7 million or 28.2 percent as a result of increased spending on federal participating highway projects.

Authorized federal funding for highway construction remains relatively stable from year to year. However, the spending of state and federal revenue reflects the timing of highway construction projects, which is impacted by a variety of circumstances such as environmental studies or existing weather conditions. In addition, the Department of Transportation has discretion on allocating federal funds among projects, which impacts the amount of federal revenue reported in the Transportation Fund and Transportation Investment Fund.

Transportation Investment Fund

Fund balance in the Transportation Investment Fund increased by \$70.1 million or 54 percent from the prior year as a result of net transfers (appropriations) into the fund for highway construction projects. Revenues in the fund decreased \$55.4 million or 20.6 percent primarily due to declining sales and use tax collections of \$44.7 million. Federal contracts and grants revenue also decreased \$9.7 million or 40.2 percent as federal funding for Centennial Highway Projects slowed for projects nearing completion. Expenditures increased by \$9.2 million or 2.5 percent primarily in construction expenditures for the projects specific to this fund.

Trust Lands Fund

The fund balance of the permanent Trust Lands Fund increased by \$30.6 million or 3.1 percent due to revenues generated from land use and sales of trust lands. The permanent fund also generated \$27.6 million of cash investment earnings for the Uniform School Fund that is earmarked for distribution to local school districts. The principal in the fund is held in perpetuity with earnings restricted primarily to support public education.

FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS

Student Assistance Programs

The Student Assistance Programs finished the year with an increase in net assets of \$14.2 million or 4.9 percent. The increase was largely due to a reduction of interest expense on variable rate bonds and favorable net interest margins on student loans and investments. Federal reinsurance reimbursements increased \$2.4 million or 7.1 percent due to an increase in defaulted loan claims submitted by lenders. Of total net assets of \$301.9 million, \$209.8 million is restricted for use within the Student Assistance Programs by bond covenants or by federal law.

Unemployment Compensation Fund

The State's unemployment rate has increased compared to the rate one year ago as the slowdown in the national economy weighed upon Utah's economy. The upward trend in the unemployment rate resulted in a \$50.7 million or 51.9 percent increase in benefit payments from the prior year. However, for the fourth consecutive year, employer taxes and other revenues exceeded benefit payments. Assets were sufficient to handle the demand for benefits, and net assets increased \$50.2 million or 6 percent, to \$888.2 million. The entire balance of net assets in this fund is restricted for paying unemployment benefits by state and federal law.

Water Loan Programs

The net assets of the Water Loan Programs increased \$47.4 million or 7.4 percent from the prior year. Additional capital for loans was provided from \$22.9 million in dedicated sales tax revenues, \$19.4 million in federal grants, and \$1.7 million of net operating revenues in the fund. Loans receivable for the programs increased \$33.8 million or 6.1 percent over the prior year as additional funds were available for loans. Of total net assets of \$690.1 million, \$288.2 million is restricted for use within the Water Loan Programs by federal grant requirements.

CAPITAL ASSET AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The State's capital assets increased a net \$757 million during the year. The change consisted of net increases in infrastructure (e.g., highways) of \$129.8 million; land and related assets of \$62.2 million; and buildings, improvements, and construction in progress of \$555.5 million. Machinery and equipment increased a net \$9.5 million during the year. Several buildings financed by the State are actually owned by the colleges and universities, which are discrete component units of the State. Therefore, while the capital assets are on the component unit's financial statements, any outstanding debt issued by the State to finance construction of those assets is reported as a liability of the State's governmental activities. This in turn reduces unrestricted net assets. As of June 30, 2008, the State had \$124.5 million of outstanding debt related to capital assets of component units.

At June 30, 2008, the State had \$181.4 million in commitments for building projects in its capital projects funds and \$811.6 million (\$169.8 million in the Transportation Investment Fund and \$641.8 million in the Transportation Fund) in commitments for highway construction and improvement projects. Funding for the commitments will come from existing resources in these funds and from future bond proceeds and appropriations.

The State has adopted an allowable alternative to reporting depreciation for roads and bridges (infrastructure assets) maintained by the Utah Department of Transportation (UDOT). Under this alternative method, referred to as the "modified approach," UDOT must maintain an asset management system and demonstrate that the infrastructure is being preserved at or above established condition levels. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

The State's established condition level for roads is to maintain 50 percent with a rating of "fair" or better and no more than 15 percent with a "very poor" rating. The most recent condition assessment, completed for calendar year 2007, indicated that 62.6 percent of the roads were in "fair" or better condition. Only 12.4 percent of the roads assessed were in "very poor" condition. These results reflect a slight decline from conditions in calendar year 2006, when 64.5 percent of the roads were assessed as "fair" or better, and 11.3 percent assessed were in "very poor" condition.

The State's established condition level for bridges is to maintain 50 percent with a rating of "good" and no more than 15 percent of bridges with a "poor" rating. The most recent condition assessment, completed in April 2008, indicated that 72 percent and 2 percent of bridges were in "good" and "poor" condition, respectively. These results are similar to the prior year.

During fiscal year 2008, the State spent \$586.4 million to maintain and preserve roads and bridges. This amount is 18.7 percent above the estimated amount of \$494 million needed to maintain these assets at established condition levels.

More information about capital assets is included in Note 8 on page 85, and more detailed information on the State's modified approach for reporting infrastructure is presented in the Required Supplementary Information on page 113.

Long-term Debt

The *Constitution of Utah* authorizes general obligation borrowing only as approved by the Legislature. The *Constitution* also limits outstanding state general obligation debt to 1.5 percent of the fair market value of all taxable property in the State, while state law further restricts outstanding state general obligation debt to no more than 45 percent of the appropriations limit. As of June 30, 2008, the State was \$680.3 million below the statutory debt limit and \$3.035 billion below the debt limit established in the *Constitution*.

Revenue bonds of the State Building Ownership Authority are not backed by the general taxing authority of the State, but are payable from rent revenue provided through appropriations of the Legislature or other operating revenues. Revenue bonds of the Student Assistance Programs are not backed by the general taxing authority of the State, but are payable solely from specific fees or loan repayments as pledged in the bond indentures.

State of Utah Net Outstanding Bonded Debt as of June 30 (Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2008	2007	2008	2007	2008	2007	2007 to 2008
General Obligation Bonds	\$ 1,198.0	\$ 1,284.0	\$ —	\$ —	\$ 1,198.0	\$ 1,284.0	(6.7)%
Revenue Bonds:							
State Building Ownership Auth.	162.3	275.5	51.0	37.0	213.3	312.5	(31.7)%
Student Assistance Programs	—	—	2,165.2	2,137.7	2,165.2	2,137.7	1.3 %
Total Bonds Payable	\$ 1,360.3	\$ 1,559.5	\$ 2,216.2	\$ 2,174.7	\$ 3,576.5	\$ 3,734.2	(4.2)%

Total bonds payable decreased \$157.7 million in part through the payment of principal balances on outstanding debt and also due to cash defeasances of \$69.2 million on several revenue bonds of the State Building Ownership Authority that did not result in the issuance of new debt. However, the State issued \$75 million of general obligation bonds during the fiscal year. Of the general obligation bonds issued, \$69 million was for highway construction and \$6 million was for capital facility construction. In addition, the State issued a

total of \$115.1 million of revenue bonds. Of the revenue bonds issue, \$15.4 million was to provide for capital facility construction and \$99.7 million was to provide capital for purchasing student loans in the Student Assistance Programs.

The State's active management of its resources has helped the State maintain its triple-A rating on general obligation bonds from all three national rating agencies, and double-A rating on lease revenue bonds from two national rating agencies from which ratings were sought. These ratings are the best available and save millions of dollars in interest each year because the State is able to obtain very favorable interest rates on new debt. Note 10 beginning on page 89 contains more information about the State's outstanding debt.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

Original general revenue estimates for the General Fund and Education Fund for fiscal year 2009 were higher than original general revenue estimates for fiscal year 2008. In early fiscal year 2009, revenue estimates for fiscal year 2009 were revised downward as the economy contracted and sales and other taxes were estimated to be \$272.4 million less than anticipated. In September 2008, the 2008 Second Special Session of the Legislature was called by the Governor to address the fiscal year 2009 revenue shortfalls. During the special session, the Legislature reduced most agencies' fiscal year 2009 budgets by 3 percent, and made other budget adjustments as necessary to balance the budget. Public education was held harmless from these early budget cuts. The previous increase in ongoing money appropriated for capital projects was also reduced.

Preliminary data for fiscal year 2009 show revenues are expected to be lower than 2009 budget estimates revised during the recent special session. Total tax revenues are expected to decrease in fiscal year 2009. The average unemployment rate is expected to increase in 2008 to 3.7 percent, up from the average 2007 rate of 2.7 percent. Taxable retail sales are expected to grow only 0.5 percent in 2008 and decline (1.6) percent in 2009. Personal income is expected to grow 4.5 percent in 2008 and only 0.5 percent in 2009. Because these indicators are measured on a calendar year basis, the impact on the State budget will not be fully realized until well into fiscal year 2009. The Governor and Legislature are expected to review the fiscal year 2009 budget again during the upcoming 2009 General Session and take action as necessary to balance the budget.

CONTACTING THE STATE'S DIVISION OF FINANCE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Department of Administrative Services: Division of Finance, Financial Reporting Section at (801) 538-3082 or visit our Web site at: www.finance.utah.gov.

The preceding discussion and analysis focuses on the State's primary government operations. With the exception of a few nonmajor component units, the State's component units each issue separate audited financial statements that include their respective management's discussion and analysis. Component unit statements may be obtained from their respective administrative offices or from the Utah State Auditor's Office, Utah State Capitol Complex, East Office Building, Suite E310, Salt Lake City, UT 84114.